

## **Circumstances in which a Pad Site Sharing Agreement Should and Should Not Be Used**

The PSSA has been designed for the typical shared pad site. Attributes of the typical pad site include: (i) a single Site Operator; (ii) a single blended ownership interest based on Well count; and (iii) a sharing, based on blended ownership interests, of Capacity, Operating Costs and any fee income from the use of Surplus Capacity. Users requiring a more complex handling would need to modify the document to deliver their desired outcomes.

One concern that has emerged relates to the expectation in the PSSA that there be a single Site Operator, notwithstanding that the mineral rights being exploited from the wells located on the shared Pad Site are held in differing interests.

The starting point in examining that concern is to consider the circumstances in which a PSSA would be contemplated and those in which the Task Force concluded that it should not be used at all.

One of the major principles in the project is that a PSSA (or any other pad sharing) should not be used in any scenario in which parties that have no natural business relationship try to save some front-end costs by sharing a pad site.

Those parties should probably assess how they can mitigate their environmental footprint through an examination of synergies for roads and pipelines. They should probably also consider collaborating in ways in which their individual pad sites are close to (or even adjacent to) each other. However, the Task Force concluded that they should not share a single pad site because of the complexities this would create for the ongoing management of the pad site.

To illustrate, consider the following scenarios:

1. X and Y hold two sections of joint lands in 75-25% interests under a single JOA and plan four wells.
2. A has a 100% section and a section in which it has a 75-25% interest with B, where A plans to drill four wells to the XYZ formation (two in each interest set).
3. X is the operator under several different JOAs in three sections in which X and the applicable working interest owners have varying interests, in circumstances in which X plans to drill four wells to the JKL formation (two in one interest set and one in two others).
4. J has a 100% section in which it plans to drill wells to the ABC formation and a section of deep rights held 25-75% with K for which K is the operator and contemplates a technically challenging deep rights target. J proposes a shared pad site with J as operator because J has an interest in all mineral rights being exploited, but K has concerns about J's expertise with the deep play.
5. M has a 100% section and N has a 100% section. Each is drilling: (i) to a different formation; or (ii) to the same formation.

In which scenarios should the applicable parties propose to enter into a PSSA?

The Task Force concluded that a PSSA should only be considered in the second and third scenarios. The JOA could govern the pad site operations in the first scenario. The parties should not attempt to share a pad in the fourth and fifth scenarios, notwithstanding that other synergies might be exploited for roads, pipelines, etc. in those scenarios. The "prime contractor" requirements of the Regulations further reinforce this conclusion, as examined in the section below.

That being said, there may be circumstances in which things evolve in a way in which a scenario #2 or #3 PSSA ends up with Site Operator not being involved in a particular Well because of a non-participation election on an activity on an existing Well or a sale of an interest in selective Wells.

As noted elsewhere in the annotations, the Task Force concluded that it was not appropriate to try to anticipate a multitude of "what if" scenarios in the PSSA. That would create prescriptive outcomes that would be 100% wrong in many scenarios. In addition, it would require significant extra content that would be labour intensive to create and ultimately be a barrier to the review and use of the PSSA.

The better answer for those situations is for the Owners to address their outcomes in the context of their own particular circumstances when preparing their PSSA or at the time an issue arises. For situations involving a producing Well, a contract operating agreement with a Site Operator might be sufficient to mitigate the issue.